

Message Text

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TO AMEMBASSY ADDIS ABABA

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E.O. 11652: N/A

TAGS: EFIN

SUBJECT:EXPROPRIATION OF ETHIOPIAN SPICE

REF: A) ADDIS 10734; B) ADDIS 6496; C) STATE 117201

1. PER REPORT PARA 4 REFTL A, OPIC HAS DISCUSSED ETHIOPIAN SPICE SITUATION WITH LOCAL COUNSEL FOR KALAMAZOO SPICE EXTRACTION COMPANY (KALSEC). KALSEC VICE PRESIDENT KARL SANDELIN RECENTLY MET WITH EPMG OFFICIAL IN SPAIN AND BOTH RETURNED TO KALAMAZOO FOR DISCUSSIONS ON ETHIOPIAN SPICE. LITTLE PROGRESS MADE TOWARD AGREEMENT ON FUTURE OPERATIONAL RELATIONSHIP BETWEEN ETHIOPIAN SPICE AND KALSEC, DISCUSSED IN REFETL B. KALSEC PRESENTLY RELUCTANT TO ENTER PURCHASE AGREEMENT WITH ETHIOPIANSPICE,SINCE KALSEC BELIEVES THERE IS SUBSTANTIAL RISK ETHIOPIAN SPICE WOULD BE UNABLE TO PERFORM. KALSEC'S INFORMATION IS THAT LOCAL FARMERS ARE NOT PLANTING PEPPER CROP FOR NEXT YEAR HARVEST AND THAT AGRICULTURAL SITUATION IS IN TURMOIL. SINCE KALSEC ENTERS FIRM DELIVERY CONTRACTS WITH ITS CUSTOMERS,
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IT REQUIRES A DEPENDABLE SOURCE OF OLEORESIN PRODUCT. UNLES

AGREEMENT REACHED AND KALSEC GETS ASSURANCE ON ABILITY OF ETHIOPIAN SPICE TO DELIVER PRODUCT, KALSEC WILL LOOK FOR OTHER SOURCES OF OLEORESIN FOR ITS FUTURE REQUIREMENTS. IT WOULD BE IN INTEREST OF EPMG FOR AGREEMENT WITH KALSEC

TO BE CONCLUDED SINCE OLEORESIN PRODUCT IS ENTIRELY FOR EXPORT AND KALSEC IS THE ONLY LIKELY PURCHASER.

2. COMPENSATION QUESTION WAS NOT TAKEN UP SINCE KALSEC WAS INFORMED THAT EPMG HAS NOT YET FINALIZED COMPENSATION POLICY. KALSEC DISAPPOINTED THAT THERE HAS BEEN SO LITTLE PROGRESS ON THE MATTER AND IS PESSIMISTIC THAT AMICABLE SOLUTION CAN BE REACHED. NOTE THAT ON COMPENSATION, KALSEC POSITION IS THAT IT SHOULD GET COMPENSATION FOR ENTIRE INVESTMENT IN ETHIOPIAN SPICE. FROM KALSEC POINT OF VIEW, THERE IS NO DISTINCTION BETWEEN EXPROPRIATION OF CONTROLLING INTEREST AND TOTAL EXPROPRIATION. KALSEC SEES NO ECONOMIC BENEFIT AND HAS NO INTEREST IN RETAINING A MINORITY EQUITY POSITION IN ETHIOPIAN SPICE.

3. AS REPORTED REFTEL C, KALSEC HAS OUTSTANDING PAYABLES OWING TO ETHIOPIAN SPICE IN THE AMOUNT OF DOLS 1,900000. PAYABLES RESULTED FROM PURCHASE BY KALSEC OF LAST SEASONS OLEORESIN PRODUCT. KALSEC HAS PAID INTEREST ON PAYABLES THROUGH JULY, BUT SUSPENDED INTEREST PAYMENTS AS OF AUGUST. FIRST INSTALLMENT OF PAYABLES WAS DUE SEPTEMBER 1, BUT KALSEC WILL NOT PAY UNTIL AGREEMENT REACHED WITH EPMG ON COMPENSATION. KALSEC HOPES UNPAID PAYABLES WILL GIVE IT BARGAINING LEVERAGE ON COMPENSATION QUESTION.

4. EMBASSY SHOULD KEEP OPIC ADVISED OF FUTURE DEVELOPMENTS ON EPMG COMPENSATION POLICY. INGERSOLL

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